

**CALIFORNIA HEALTH FACILITIES FINANCING AUTHORITY  
TAX-EXEMPT EQUIPMENT FINANCING PROGRAM  
GENERIC EQUIPMENT PROGRAM**

**EXECUTIVE SUMMARY**

<p><b>Applicant:</b> Loma Linda University Medical Center 11234 Anderson Street Loma Linda, CA 92354 San Bernardino County</p> <p><b>Project Site:</b> 11234 Anderson Street, Loma Linda, California 92354</p> <p><b>Facility Type:</b> Acute care hospital</p> <p><b>Obligated Group:</b> Loma Linda University Medical Center (“LLUMC”)</p>	<p><b>Amount Requested:</b> \$13,488,000</p> <p><b>Requested Loan Term:</b> 7 years</p> <p><b>Date Requested:</b> May 27, 2004</p> <p><b>Resolution Number:</b> E-23</p>																					
<p><b>Use of Loan Proceeds:</b> Loan proceeds will be used to purchase various equipment items that will enhance LLUMC’s efficiency, improve patient safety and increase access to healthcare.</p>																						
<p><b>Type of Issue:</b> Private Placement</p> <p><b>Security:</b> First lien on equipment</p> <p><b>Expected Rating:</b> Unrated (LLUMC underlying rating of “BB” by S &amp; P)</p> <p><b>Placement Agent/Lender:</b> Citi Capital</p> <p><b>Bond Counsel:</b> Orrick, Herrington &amp; Sutcliffe LLP</p>																						
<p><b>Financial Overview:</b> LLUMC consistently has generated operating profits over our three-year review period ranging from \$10.7 million to \$17.5 million. LLUMC has a solid balance sheet with good liquidity, sizeable financial resources, and solid proforma debt service coverage.</p>																						
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<p><b>Legal Review:</b> No information was disclosed to question the financial viability or legal integrity of the Applicant.</p>																						
<p><b>Staff Recommendation:</b> Staff recommends the Authority approve an equipment financing resolution for Loma Linda University Medical Center in an amount not to exceed \$13,488,000 with a term of seven years.</p>																						

**STAFF SUMMARY AND RECOMMENDATION  
TAX-EXEMPT EQUIPMENT FINANCING PROGRAM  
Generic Equipment Program  
Loma Linda University Medical Center (“LLUMC”)**

May 27, 2004  
Resolution Number: E-23

**I. PURPOSE OF FINANCING:** Loma Linda University Medical Center intends to use loan proceeds to purchase equipment and reimburse itself for prior equipment purchases. This equipment will improve operational efficiencies through better information systems and more cost-effective diagnostic and treatment technologies. In addition, several equipment purchases will increase access to healthcare.

The details of the project are shown below:

<b>Equipment Purchases .....</b>	<b><i>\$11,784,531</i></b>
<i>Braun Infusion Pumps .....</i>	<i>\$2,619,650</i>
<i>Information Technology Upgrade/Replacement.....</i>	<i>2,000,000</i>
<i>CT Simulator and Work Stations .....</i>	<i>1,810,000</i>
<i>Monitors and Telemetry System.....</i>	<i>1,200,000</i>
<i>Cardiac, PICU, Hem/Onc &amp; Patient Beds .....</i>	<i>850,000</i>
<i>Tax on all equipment purchases (7.75%) .....</i>	<i>847,612</i>
<i>Radiographic Fluoroscopic Replacement .....</i>	<i>600,000</i>
<i>Nuclear Med Gamma Camera .....</i>	<i>500,000</i>
<i>GI Lab Ultrasound System and Replacement Units .....</i>	<i>467,467</i>
<i>Microscopes .....</i>	<i>255,000</i>
<i>Electro Physiology System.....</i>	<i>165,000</i>
<i>Autoclave System .....</i>	<i>150,000</i>
<i>Steam Sterilizers .....</i>	<i>123,628</i>
<i>OR Tables.....</i>	<i>98,772</i>
<i>Cargo Van and Truck .....</i>	<i>48,805</i>
<i>Bravo pH System.....</i>	<i><u>48,597</u></i>

**Reimbursement of Prior Equipment Purchases .....***1,648,469*

LLUMC has already purchased the following equipment:

<i>Talk Technology System.....</i>	<i>\$511,195</i>
<i>Utrasound Units .....</i>	<i>338,600</i>
<i>Software .....</i>	<i>367,131</i>
<i>Neuromicroscope systems.....</i>	<i>217,900</i>
<i>Dispatch Buses and Truck .....</i>	<i>117,745</i>
<i>Microguide Electrode Channel.....</i>	<i><u>95,898</u></i>

**Costs of Issuance** ..... **55,000**

*Bond Counsel* ..... \$35,000

*Issuer Fee* ..... 6,744

*Advisory Fees* ..... 12,000

*Escrow Agent Fees* ..... 1,256

***Total Uses of Funds*** ..... **\$13,488,000**

**Structure of Financing:**

- Tax-exempt revenue note.
- Privately placed with Citi Capital
- Seven-year loan fully amortized note.
- Fixed interest rate estimated at 4.50% (final rate to be determined two days prior to escrow funding).
- Estimated monthly payment is \$190,000.
- Citi Capital will be granted a first priority security interest in the equipment.

*[Financial statements and analysis on following pages]*

## II. FINANCIAL STATEMENTS AND ANALYSIS:

### LOMA LINDA UNIVERSITY MEDICAL CENTER

(UNRESTRICTED)

#### Statement of Activities <sup>(1)</sup>

	<b>For the Year Ended December 31,</b>		
	<b>2003</b>	<b>2002</b>	<b>2001</b>
<b>Revenues:</b>			
Net patient revenue	\$ 692,211,633	\$ 665,161,857	\$ 594,024,516
Premium revenue	17,370,253	20,843,546	24,074,110
Other revenue	80,274,252	66,542,196	61,862,251
Net assets released from restrictions	1,837,214	2,097,983	3,329,209
Total revenues	<u>791,693,352</u>	<u>754,645,582</u>	<u>683,290,086</u>
<b>Expenses:</b>			
Employee compensation	420,997,302	379,969,870	329,988,936
Professional fees	67,307,779	56,686,272	58,584,556
Supplies	125,462,328	113,759,693	102,074,378
Outside provider costs	9,014,543	10,436,333	13,338,114
Self-insurance claims	6,713,598	10,572,463	13,522,874
Other expenses	87,411,698	92,640,207	82,557,955
Provision for doubtful accounts	15,011,975	23,996,502	22,460,953
Interest	12,374,840	10,987,714	13,005,914
Depreciation and amortization	36,624,686	38,020,886	33,408,087
Total expenses	<u>780,918,749</u>	<u>737,069,940</u>	<u>668,941,767</u>
<b>Operating income</b>	<b>10,774,603</b>	<b>17,575,642</b>	<b>14,348,319</b>
Loss realized on investment	-	(17,238,555)	-
Investment income	7,503,763	4,635,171	4,436,058
Excess of revenue over expenses	<u>18,278,366</u>	<u>4,972,258</u>	<u>18,784,377</u>
Change in net unrealized gains (losses) on investments	5,275,556	12,855,044	(2,742,081)
Transfers from (to) affiliates	900,000	(600,000)	(600,000)
<b>Increase in unrestricted net assets</b>	<b>24,453,922</b>	<b>17,227,302</b>	<b>15,442,296</b>
UNRESTRICTED NET ASSETS, BEGINNING OF YEAR	<u>\$ 202,611,101</u>	<u>\$ 185,383,799</u>	<u>\$ 169,941,503</u>
UNRESTRICTED NET ASSETS, END OF YEAR	<u>\$ 227,065,023</u>	<u>\$ 202,611,101</u>	<u>\$ 185,383,799</u>

(1) Financial statements for Loma Linda University Medical Center (LLUMC). LLUMC's affiliates shown on page 6 are not included in these financial statements.

**LOMA LINDA UNIVERSITY MEDICAL CENTER**

Statement of Financial Position <sup>(1)</sup>

	<b>As of December 31,</b>		
	<b>2003</b>	<b>2002</b>	<b>2001</b>
<b>ASSETS</b>			
Current Assets:			
Cash and cash equivalents	\$ 131,899,232	\$ 103,743,986	\$ 89,637,353
Short-term investments	484,600	262,000	389,651
Patient accounts receivable, net	109,086,407	99,837,073	109,444,894
Third-party receivables	25,774,706	25,326,265	24,919,664
Other receivables	8,877,403	27,432,643	25,831,504
Prepaid expenses	11,074,961	12,868,620	8,689,606
Land held for sale	1,322,305	1,322,305	-
Due from affiliates	621,632	383,577	408,025
<b>Total current assets</b>	<b>289,141,246</b>	<b>271,176,469</b>	<b>259,320,697</b>
Assets whose use is limited:			
Held by bond trustee, net	24,753,406	25,030,132	24,709,501
Held by insurance trustee	40,905,115	27,015,756	18,013,028
	65,658,521	52,045,888	42,722,529
Rental property	19,856,017	20,565,161	21,274,304
Deferred financing costs, net	7,817,600	8,312,303	8,807,006
Other long term assets	5,160,426	5,053,796	5,744,859
<b>Total other assets</b>	<b>98,492,564</b>	<b>85,977,148</b>	<b>78,548,698</b>
Property, plant and equipment, net	285,902,197	288,709,261	294,386,298
<b>TOTAL ASSETS</b>	<b>\$ 673,536,007</b>	<b>\$ 645,862,878</b>	<b>\$ 632,255,693</b>
<b>LIABILITIES AND NET ASSETS</b>			
Current liabilities:			
Accounts payable	\$ 48,514,448	\$ 36,034,233	\$ 44,720,896
Accrued liabilities	44,752,841	43,557,181	38,876,672
Liabilities to third parties for contractual settlements	101,074	776,593	1,304,186
Accrued medical claims	6,034,590	5,996,834	7,366,393
Current portion of estimated self-insurance liabilities	6,362,375	11,074,235	10,363,343
Current maturities of long-term debt	18,120,767	14,133,756	11,978,375
Due to affiliates	1,706,806	3,019,358	2,656,899
<b>Total current liabilities</b>	<b>125,592,901</b>	<b>114,592,190</b>	<b>117,266,764</b>
Deferred revenue	1,116,966	2,239,386	3,323,537
Estimated self-insurance liabilities, net	42,474,507	37,401,376	35,000,458
Other long-term liabilities	8,554,867	7,702,977	6,561,029
Long-term debt, net	251,711,162	265,904,971	270,630,910
<b>TOTAL LIABILITIES</b>	<b>429,450,403</b>	<b>427,840,900</b>	<b>432,782,698</b>
<b>NET ASSETS:</b>			
Unrestricted Net Assets	227,065,023	202,611,101	185,383,799
Temporarily Restricted Net Assets	17,020,581	15,410,877	14,089,196
<b>TOTAL LIABILITIES AND NET ASSETS</b>	<b>\$ 673,536,007</b>	<b>\$ 645,862,878</b>	<b>\$ 632,255,693</b>

**Financial Ratios:**

	<b>Proforma<sup>(2)</sup></b>			
Debt Service Coverage (x)	<b>2.24</b>	<b>2.33</b>	<b>2.88</b>	<b>2.57</b>
Debt/Unrestricted Net Assets (x)	<b>1.25</b>	<b>1.25</b>	<b>1.38</b>	<b>1.52</b>
Margin (%)		<b>2.20</b>	<b>2.27</b>	<b>2.25</b>
Current Ratio (x)		<b>1.97</b>	<b>2.37</b>	<b>2.21</b>

(1) Financial statements for Loma Linda University Medical Center (LLUMC). LLUMC's affiliates shown on page 6 are not included in these financial statements.

(2) Recalculates December 2003 audited results to include the impact of this proposed financing.

**Financial Discussion: LLUMC consistently has generated operating profits over our three- year review period ranging from \$10.7 million to \$17.5 million.**

LLUMC has experienced slightly higher utilization in 2003 compared to 2002, with higher admissions and outpatient surgery visits, while emergency visits and outpatient visits dropped slightly. During fiscal year 2002, LLUMC realized a large loss on investments of \$17.2 million as a result of an investment in Phycor stock, which filed for Chapter 11 bankruptcy in 2002.

**LLUMC has a solid balance sheet with good liquidity, sizeable financial resources, and solid proforma debt service coverage.**

LLUMC has improved its liquidity, as cash and cash equivalents have increased to \$131 million in fiscal year 2003 compared to \$89 million in fiscal year 2001. LLUMC also has significant financial resources with over \$227 million in unrestricted net assets. LLUMC is slightly leveraged, with long-term debt compared to unrestricted net assets ratio of 1.25x. However, LLUMC's debt service coverage has been solid over the last three years, ranging from 2.33x to 2.88x. In addition, LLUMC's proforma debt service ratio is a solid 2.24x, which indicates that LLUMC should be able to comfortably make loan repayments on the proposed financing.

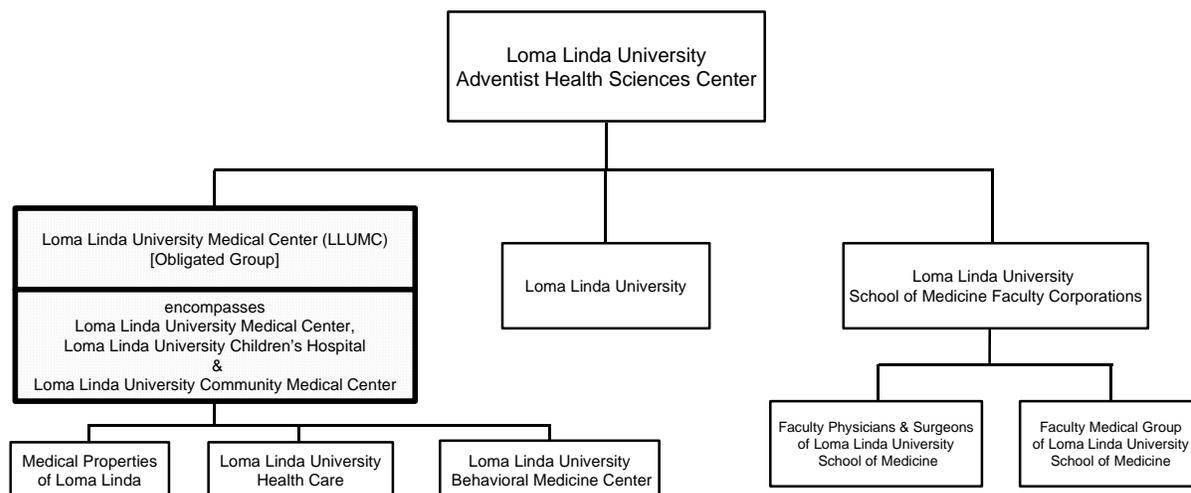
In April 2003, Standard and Poor's raised its long-term rating on the 1999 Revenue bonds from "BB-" to "BB" due to improved profitability, liquidity and a strong market position.

### III. UTILIZATION STATISTICS

	<u>2003</u>	<u>2002</u>	<u>2001</u>
<b>Acute Beds:</b>			
Licensed Beds/In Service Beds	789/653	789/653	789/653
Occupied Beds In Service	78.9%	75.3%	73.6%
Average Length of Stay (Days)	6.0	5.9	5.7
Admissions	31,304	30,615	30,530
Emergency Visits	56,071	58,166	60,047
Outpatient Visits	543,833	544,813	538,527
Outpatient Surgery Visits	10,487	9,944	10,012
Inpatient Revenues	75%	75%	74%
Outpatient Revenues	<u>25%</u>	<u>25%</u>	<u>26%</u>
Totals	<u>100%</u>	<u>100%</u>	<u>100%</u>

**IV. BACKGROUND:** LLUMC, a California non-profit public benefit corporation, serves as a teaching hospital for Loma Linda University and provides a comprehensive range of inpatient and outpatient services. LLUMC is the primary tertiary care facility in the San Bernardino-Riverside county area.

#### Corporate Organization:



LLUMC will be the sole obligor for this financing. As shown in the chart above, LLUMC is part of the Loma Linda University Adventist Health Sciences Center (LLUAHSC) health system. LLUMC's affiliated entities shown in the chart are part of the LLUAHSC medical delivery network, but will not be obligated under any of the terms set forth in the loan documents.

**Services:** LLUMC offers a wide range of general and specialty clinic, ancillary and physician services. Inpatient and outpatient services include cardiac, respiratory, radiation, physical therapy, occupational therapy, organ transplantation, nuclear medicine, dental services, cardiovascular surgery, pediatric, intensive care, acute care and emergency services.

LLUMC also offers inpatient and outpatient rehabilitation, adult day care and adult day health and home care services and houses Centers for Fertility, Joint Replacement, Pain Management, Diabetes Treatment, Proton Treatment and Sleep Disorders.

**Service Area:** LLUMC provides comprehensive health services to a diverse population. LLUMC's primary service area is the San Bernardino-Riverside County region, given its location near the Riverside-San Bernardino County line. The primary service area includes the communities of Adelanto, Alta Loma, Apple Valley, Banning, Barstow, Beaumont, Big Bear, Bloomington, Calimesa, Chino, Chino Hills, Colton, Corona, Crestline, Fontana, Grand Terrace, Hemet, Hesperia, Highland, Lake Elsinore, Loma Linda, Mentone, Mira Loma, Moreno Valley, Murrieta, Ontario, Perris, Rancho Cucamonga, Redlands, Rialto, Riverside, San Bernardino, San Jacinto, Sun City, Temecula, Upland, Victorville and Yucaipa. These communities account for 80% of the discharges from LLUMC.

LLUMC is the only trauma center serving Riverside, San Bernardino, Mono and Inyo counties. It is the main Level 1 trauma center between Orange County and Utah.

**Competition:** LLUMC faces competition from a number of hospitals in the San Bernardino-Riverside County region. However, it maintains its position as a market leader in terms of patient days, with a market share of 12%. LLUMC is the primary tertiary care provider in the area.

**Licenses:** LLUMC is licensed by the State Department of Health Services to operate as a General Acute Care Hospital with nearly 800 beds. LLUMC participates in Medicare, Medi-Cal and managed care programs as discussed below:

**Medicare:** LLUMC is certified to provide health care services to participants in various Medicare plans. There is no contract expiration date for these plans. Medicare revenues provide approximately 22% of total support and revenue.

**Medi-Cal:** LLUMC has a Medi-Cal contract, which is renewed every two years. The current contract expired at the end of calendar year 2003 and LLUMC is currently negotiating a new contract. Medi-Cal revenues provide approximately 29% of total support and revenue.

**Managed Care:** Effective December 2002, LLUMC terminated the remainder of its full risk capitated arrangements. Currently, LLUMC maintains approximately 120 fee-for-service contracts with various HMO's, PPO's and commercial insurance plans. Reimbursement from managed care organizations is characterized by per diems, case rates and percentage of charge arrangements. Managed care represents approximately 44% of total support and revenue to LLUMC.

## V. OUTSTANDING DEBT

Following this proposed financing, LLUMC will have \$283,319,929 outstanding long-term debt, with \$23,736,030 representing CHFFA debt. The composition of LLUMC's total long-term debt structure is shown below:

Date Issued	Original Amount	Amount Outstanding as of 12/31/03 (1)	Estimated Amount Outstanding after Proposed Financing
<b>Existing Debt:</b>			
CHFFA Equipment Financing September 2002	\$6,250,000	\$5,086,328	\$5,086,328
Hospital Revenue Refunding 1999 A Bonds (2)	109,335,000	84,840,000	84,840,000
Hospital Revenue Refunding 1992 A Bonds (2)	14,965,000	11,095,000	11,095,000
Hospital Revenue 1993 A Bonds (2)	62,565,000	53,705,000	53,705,000
Hospital Revenue 1993 B-D Bonds/COPs (2)	113,125,000	99,040,000	99,040,000
Note Payable	5,000,000	4,550,315	4,550,315
Other Debt	12,309,198	11,515,286	11,515,286
<b>Proposed:</b>			
CHFFA Equipment Financing 2004			13,488,000
<b>Total Debt</b>		<u>\$269,831,929</u>	<u>\$283,319,929</u>

- (1) The amount outstanding combines long-term debt and current maturities of long-term debt. The amounts shown above exhibit total debt for LLUMC only.
- (2) Issued through the City of Loma Linda.

## VI. SECTION 15438.5 OF THE ACT (Savings Pass Through)

It is the intent of the Legislature in enacting this part to provide financing only to health facilities that can demonstrate the financial feasibility of their projects. It is further the intent of the Legislature that all or part of any savings experienced by a participating health institution, as a result of that tax-exempt revenue bond funding, be passed on to the consuming public through lower charges or containment of the rate of increase in hospital rates.

LLUMC has provided a description of its savings pass through in **Exhibit A**.

## **VII. SECTION 15459.1 (b) OF THE ACT (Community Service Requirement)**

As a condition of the issuance of revenue bonds, whether by the Authority or any local agency, each borrower shall give reasonable assurance to the Authority that the services of the health facility will be made available to all persons residing or employed in the area served by the facility. As part of this assurance, borrowers shall agree to a number of actions, including (a) To advise each person seeking services at the borrower's facility as to the person's potential eligibility for Medi-Cal and Medicare benefits or benefits from other governmental third-party payers, (b) To make available to the authority and to any interested person a list of physicians with staff privileges at the borrower's facility, and (c) To post notices in appropriate areas within the facility regarding services being available to all in the service area. This agreement is a standard "Certification and Agreement Regarding Community Service Obligation".

A copy of LLUMC's certification is included as **Attachment B**.

## **VIII. COMPLIANCE WITH SEISMIC REGULATIONS**

SB 1953 (Chapter 740, 1994) requires that all acute care hospitals in California meet specific seismic safety standards by 2008 and 2030.

LLUMC has provided a description of its seismic requirements. See **Attachment C**.

**IX. LEGAL REVIEW:** Staff has reviewed the Applicant's responses to the questions contained in the Legal Status portion of the Application. No information was disclosed to question the financial viability or legal integrity of this applicant.

**X. STAFF RECOMMENDATION:** Staff recommends the Authority approve an equipment financing resolution for Loma Linda University Medical Center in an amount not to exceed \$13,488,000 with a term of seven years.